

Incurring Cost Submissions



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Incurred Cost Proposals

- Allowable cost and payment clause requires the submission (FAR 52.216-7)
- Requires a signed certification stating allowability of all costs submitted in the claim (FAR 52-242-4)

Incurred Cost Proposals

- Documentation necessary to substantiate the claim for reimbursement of direct costs
- Documentation necessary to substantiate the claim for indirect costs

Incurring Cost Proposal

- Process necessary to move from provisional rates to a final rate for the year
- Process necessary to adjust billings based on the revisions to a final rate
- Process necessary to facilitate closing out the contract

Incurred Cost Submission

- Submission must be received by the Government no later than six months from the end of the fiscal year (FAR and OMB)
- Guidance/format of proposal in DCAA Pamphlet No. 7641.90, “Information for Contractors” – Chapter 6
- For more information – <http://www.dcaa.mil>

Incurred Cost Submission

- Failure to submit and certify will result in a unilateral decision by contracting officer
- Unilateral rates are usually set low to protect the government's interest in regards to unallowable cost

Incurred Cost Submission

- Submission is to be sent to the contracting officer (two copies)
- Contracting officer will make a determination regarding the adequacy of the submission
- Prior to any audit you will be notified by the contracting officer

Model Incurred Cost Proposal Fiscal Year Ended 6/30/04

- Schedule A Summary of Claimed Indirect Expense Rates
- Schedule B Fringe Expenses (Final Indirect Cost Pool)
- Schedule C Indirect Expenses (Final Indirect Cost Pool)

Incurring Cost Submission: Schedule A: Summary

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
<u>Fringe Rate</u>		
Pool	<u>\$ 3,192,456</u>	Schedule B
Base	<u>\$ 9,135,842</u>	Schedule E
Claimed Fringe	<u>34.94%</u>	
<u>Indirect Rate</u>		
Pool	<u>\$ 4,525,455</u>	Schedule C
Base	<u>\$ 12,048,844</u>	Schedule E
Claimed Indirect	<u>37.56%</u>	

Schedule B: Fringe Expenses

FRINGE EXPENSES FISCAL YEAR ENDED 6/30/04

ACCOUNTS	Expenses		Claimed		Notes
	Per G/L	Adjustment	Costs		
Holiday	\$ 2,321	-	\$ 2,321		
Vacation	5,812	-	5,812		
Sick Leave	987	-	987		
Personal Absence	1,082	-	1,082		
Employer FICA	820,000	-	820,000		
FUI	17,500	-	17,500		
SUI	21,375	-	21,375		
Workers' Compensation	27,500	-	27,500		
Health Insurance	965,450	-	965,450		
Life Insurance	45,789	-	45,789		
Disability Insurance	37,937	-	37,937		
Tuition Benefits	25,456	-	25,456		
Deferred Compensation	111,325	-	111,325		
Pension Plan	1,247,467	(150,000)	1,097,467		[1]
Employee Welfare	12,455	-	12,455		
Total Fringe Pool	<u>\$ 3,342,456</u>	<u>\$ (150,000)</u>	<u>\$ 3,192,456</u>		

Notes Explaining Adjustments:

[1] Amount relates to accrued but unfunded post retirement benefit expenses.

Schedule C: Overhead Exp.

FISCAL YEAR ENDED 6/30/04

ACCOUNTS	EXPENSES PER G/L	ADJUST	CLAIMED COSTS	NOTES
Indirect Salaries	\$ 1,151,131	\$ (30,000)	1,121,131	[1]
Fringe on Indirect Sal.	403,580	(10,482)	393,098	[2]
Medical Consultants	334,303	-	334,303	
Office Supplies	169,274	-	169,274	
Printing & Duplicating	76,543	-	76,543	
Data Processing	9,576	-	9,576	
Maintenance	76,888	-	76,888	
Business Insurance	98,988	-	98,988	
Training	29,876	-	29,876	
Taxes	31,897	-	31,897	
Depreciation	54,976	-	54,976	
Telephone	113,543	-	113,543	
Postage	47,666	-	47,666	
Utilities	68,798	-	68,798	
Severance Expense	13,567	-	13,567	
Legal Fees	235,877	-	235,877	
Audit Fees	105,987	-	105,987	
Travel	324,555	(1,295)	323,260	[3]
Entertainment	10,667	(10,667)	-	[4]
Recruitment	24,356	(287)	24,069	[5]
Bad Debts	3,018	(3,018)	-	[6]
Dues & Subscriptions	54,678	-	54,678	
Conventions/Seminars	87,965	-	87,965	
Interest Expense	1,001	(1,001)	-	[7]
Miscellaneous	22,252	-	22,252	
Rent	1,031,243	-	1,031,243	
Total G&A Pool	\$ 4,582,205	\$ (56,750)	\$ 4,525,455	

Notes to Schedule C

Notes Explaining Adjustments:

- [1] Compensation questioned is based on a compensation survey completed during FY 2004
- [2] This is the fringe benefit costs associated with the adjusted indirect labor.
- [3] Expense of wives of the President, and Vice President on a personal trip not claimed per FAR 31.205-046, Travel
- [4] Unallowable cost per FAR 31.205-14, Entertainment
- [5] Unallowable cost per FAR 31.205-34, Recruitment
- [6] Unallowable cost per FAR 31.205-3, Bad debts
- [7] Unallowable cost per FAR 31.205-20, Interest

Model Incurred Cost Proposal

Fiscal Year Ended 6/30/04

- Schedule D Facilities or Other Intermediate Indirect Cost Pool
- Schedule E Reconciliation of Claimed Allocation Bases
- Schedule G Reconciliation of Books of Account and Claimed Direct Costs

Schedule E: Claimed Allocation Bases

6/30/04

<u>Description</u>	<u>Ledger</u>	<u>Adjustment</u>	<u>Costs</u>	<u>Notes</u>
Fringe Base:				
Direct Labor	\$ 7,984,711	\$ -	\$ 7,984,711	Sched. G
Indirect (G&A) Labor	<u>1,151,131</u>	<u>(30,000.00)</u>	<u>1,121,131</u>	Sched. C
Total Labor	<u><u>\$ 9,135,842</u></u>	<u><u>\$ (30,000.00)</u></u>	<u><u>\$ 9,105,842</u></u>	
Indirect Base:				
Contract direct costs				
Labor			\$ 7,984,711	Sched. G
Travel			34,563	
Material			964,453	
Other Direct Costs			172,006	
Subcontracts			<u>103,253</u>	
Subtotal Direct Costs			\$ 9,258,986	
Plus: Fringe Applied to Labor			<u>2,789,858</u>	
Total Indirect Base			<u><u>\$ 12,048,844</u></u>	

Schedule G

RECONCILIATION OF BOOKS OF ACCOUNT AND CLAIMED DIRECT COSTS FISCAL YEAR ENDED 6/30/04

<u>DESCRIPTION</u>	<u>AMOUNTS PER G/L</u>	<u>ADJUSTMENTS</u>	<u>AMOUNT CLAIMED</u>	<u>NOTES</u>
<u>Direct Costs:</u>				
Direct Labor	\$ 7,984,711	\$ -	\$ 7,984,711	
Travel	34,563	-	34,563	
Material	964,453		964,453	
Other Direct Costs	172,006	-	172,006	
Subcontracts	103,253		103,253	
Total Direct Costs	<u>\$ 9,258,986</u>	<u>\$ -</u>	<u>\$ 9,258,986</u>	

Model Incurred Cost Proposal

Fiscal Year Ended 6/30/04

- Schedule H Direct Costs by Contract/Subcontract, Direct Incurred and Indirect Expense Applied at the Claimed Rate
- Schedule H-1 Government Participation in the Indirect Cost Pools
- Schedule I Schedule of Cumulative Direct and Indirect Costs Claimed and Billed
- Schedule J Subcontract Information

Schedule H

SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT AND INDIRECT EXPENSE APPLIED AT CLAIMED RATES FISCAL YEAR ENDED 6/30/04

JOB ORDER NO.	DIRECT LABOR	TRAVEL	MAT'L	ODCs	SUB- CONTRACTS	(NOTE 1) Fringe @ 34.94%	DIRECT COSTS PLUS Fringe	G&A @ 37.56%	TOTAL COSTS
CMS	\$ 7,609,428	\$ 16,773	\$ 539,719	\$ 43,630	\$ 103,253	\$ 2,587,206	\$10,900,009	\$ 4,094,043	\$14,994,052
	-	-	-	-	-	71,529	71,529	26,866	98,395
	<u>\$ 7,609,428</u>	<u>\$ 16,773</u>	<u>\$ 539,719</u>	<u>\$ 43,630</u>	<u>\$ 103,253</u>	<u>\$ 2,658,734</u>	<u>\$10,971,537</u>	<u>\$ 4,120,909</u>	<u>\$15,092,446</u>
FFP	210,968	6,312	388,643	112,914	-	73,712	792,549	297,681	1,090,231
Comm.	<u>164,315</u>	<u>11,478</u>	<u>36,091</u>	<u>15,462</u>	<u>-</u>	<u>57,412</u>	<u>284,758</u>	<u>106,955</u>	<u>391,713</u>
TOTAL	<u>\$ 7,984,711</u>	<u>\$ 34,563</u>	<u>\$ 964,453</u>	<u>\$ 172,006</u>	<u>\$ 103,253</u>	<u>\$ 2,789,858</u>	<u>\$12,048,844</u>	<u>\$ 4,525,546</u>	<u>\$16,574,390</u>
	(Sched G)								

Explanatory Notes:

- (1) Claimed Fringe rate (34.94%) over the contract fringe rate ceiling (34%). Applied the ceiling rate (34%) to Direct Labor Dollars to compute Fringe Benefit cost. Applied .94% over ceiling rate to the Direct labor dollars (\$7,609,428) to calculate the fringe costs over contract ceiling of \$71,529.

Schedule H-1

GOVERNMENT PARTICIPATION IN INDIRECT EXPENSE POOLS FISCAL YEAR ENDED 6/30/2004

<u>CONTRACT TYPE</u>	<u>FRINGE EXPENSE POOL</u>		<u>INDIRECT EXPENSE POOL</u>	
	<u>BASE</u>		<u>BASE</u>	
	<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>
Cost Type	\$ 7,609,428	95%	\$ 10,971,537	91%
Firm Fixed Price	210,968	3%	792,549	7%
Commercial	<u>164,315</u>	<u>2%</u>	<u>284,758</u>	<u>2%</u>
TOTAL	<u>\$ 7,984,711</u>	<u>100%</u>	<u>\$ 12,048,844</u>	<u>100%</u>

NOTE:

The purpose of this schedule is to present a general overview of the extent cost-type and flexibly priced contracts participate in the absorption of indirect expenses.

Schedule I

Claimed vs. Billed

- Schedule must include the total costs of the prior years previously settled
- Schedule must include the total cost of the amounts claimed but not yet settled (current submission)
- Schedule must include costs that pertain to contract limitations
- The total of item 1 and item 2 above less item 3 equals the net cumulative settled/claimed
- Schedule must include total cumulative billings to date
- Schedule must include an amount equal to item 4 less item 5 to arrive at the over or (under) billings

Schedule J

SUBCONTRACT INFORMATION FISCAL YEAR ENDED 6/30/2004

Subcontract No.	Prime Contract No.	Subcontractor's Name and Address	Point of Contact and Phone No.	Subcontract Value	Costs Incurred in FY 2004
Subcontracts Issued:					
P.O. #XYZ0998R	500-96-XXXX	Small Company 1445 Southpark Blvd. Buffalo, NY 14206	Ms. Donna Charleston Marketing Manager (716) 883-8700 X317	\$ 110,500.00	\$ 87,912.00
P.O. #XYZ0776R	500-96-XXXX	Tanza Enterprises 87B Executive Park Fairfax, VA 22033	Mr. Mike Tanza President (703) 983-5640	\$ 895,000.00	\$ 15,341.00

NOTE:

1. Subject schedule is to provide identification of subcontracts you have awarded to companies for which you are the prime or upper-tier contractor. This information is required for all cost type, flexibly priced, T&M and labor hour subcontract awards.

Model Incurred Cost Proposal

Fiscal Year Ended 6/30/04

- Schedule K Summary of Hours and Amounts on T&M Labor Hour Contracts
- Schedule L Reconciliation of Total Payroll to Total Labor Distribution
- Schedule M Listing of Decisions/Agreements/Approvals and Description of Accounting/Organizational Changes

Schedule L

Labor Reconciliation

<u>DESCRIPTION</u>	<u>EXPENSES PER G/L</u>	
Direct Labor	\$ 7,984,711	Schedule F
General and Administrative:		
Wages	1,151,131	Schedule C
Fringe:		
Holiday Wages	2,321	Schedule B
Vacation Wages	5,812	Schedule B
Sick Leave	987	Schedule B
Personal Absence	1,082	Schedule B
Severance Pay (in full)	13,567	Schedule C
Overtime Premium (included in ODCs)	270	
Total Labor Distribution	<u>\$ 9,159,881</u>	

Schedule L (cont'd)

RECONCILIATION OF TOTAL PAYROLL TO TOTAL LABOR DISTRIBUTION FISCAL YEAR ENDED 6/30/2004

	<u>PER IRS FORM 941</u>	
1st. Quarter	\$ 2,029,897	
2nd. Quarter	2,253,450	
3rd. Quarter	2,362,138	
4th. Quarter	2,522,483	
Plus: Current Year Accrual	15,128	Journal Entry # 62
Less: Prior Year's Accrual	(33,214)	Journal Entry # 62
Other Adjustments	9,999	*
TOTAL PAYROLL	<u><u>\$ 9,159,881</u></u>	

* Reference the source for any items used in this reconciliation.

Schedule M

Listing of Decisions/ Agreements/ Description of Accounting System

1. Detail contract ceilings
2. Detail any provisional rates and their ceilings
3. Detail accounting system in narrative form noting any changes during fiscal year

Model Incurred Cost Proposal Fiscal Year Ended 6/30/04

- Schedule N Certificate of Final Indirect Rates
- Schedule O Contract Closing Information

Schedule N

CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal _____ (identify proposal and date) to establish final indirect cost rates for _____ (identify period covered by rate) are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to those contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements

Firm: _____

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: _____

Schedule O

CONTRACT NO.	Performance Period		To	Ceiling	Contract	Cumulative	Actual
	From	To	Close (1)	Amount (2)	Fee (3)	Hours	
<u>Cost Type:</u>							
500-96-XXXX	7/1/2000	6/30/2004	Yes	\$ 39,329,329	\$ 3,146,346		

Explanatory Notes:

- (1) Indicate whether the contract is ready to close based on all information available. If the contract is not ready to close (e.g. a contract modification is being pursued), the reasons why should be stated in a footnote.
- (2) Provide the overall contract ceiling amount, before fee, for the type of contract.
- (3) Provide fee amount as provided by the contract. Include details of the fee computation for all flexibly priced incentive fee and level of effort type contracts, along with the contract modification used, in a footnote.

Other Schedules

1. Comparative analysis of each pool
2. Comparative analysis of the direct costs
3. Reconciliation of Tax Returns
4. Contract Brief
5. Executive Compensation Information

Model Incurred Cost Proposal

Fiscal Year Ended 6/30/04

- Attachment 1 Financial Statement/Audit Report/Management Letter
- Attachment 2 941 Payroll Tax Returns
- Attachment 3 Federal Tax Return
- Attachment 4 Board of Director Minutes
- Attachment 5 List of work sites and number of employees assigned to each site

Executive Compensation

- Benchmark Established by Public Law 105-85, Section 808
 - Limits the allowability of compensation costs under government contracts
 - Limit beginning Jan 2004 is \$432,851
 - Includes CEO and four highly compensated employees in management positions

Executive Compensation

- Compensation is defined as:
 - Wages and salary
 - Bonuses
 - Deferred compensation

Compensation

- Issue pertains to reasonableness
- Reasonableness becomes an issue of what a prudent business person would incur in a competitive business environment

Penalties

FAR 42.709

- If an expressly unallowable cost is claimed, the penalty is equal to --
 - The amount of the unallowable cost; plus
 - Interest on the paid portion, if any, of the disallowance

General Provisions

- If the indirect cost was determined unallowable for that contractor before submission of the indirect proposal, the penalty is twice the amount of the unallowable costs

Expressly Unallowable

FAR 31.001

- “Expressly unallowable cost” means a cost which, under applicable law, regulation, or contract, is specifically named or stated to be unallowable

Expressly Unallowable

- Alcoholic Beverages. Costs of alcoholic beverages are unallowable
- Bad Debts. Bad debts, including losses arising from uncollectible amounts and other claims, related collection costs, and related legal costs, are unallowable

Responsibilities

- The auditor recommends assessing penalties to the contracting officer
- The contracting officer determines whether penalties should be assessed
- The contracting officer determines whether penalties should be waived

Waiver of Penalties

- The contracting officer shall waive penalties when -
 - The contractor withdraws the proposal before the Government formally initiates an audit - (holds an entrance conference).
 - If the amount of the expressly unallowable costs allocated to contracts is \$10,000 or less.

Waiver of Penalties (cont'd)

- The contractor demonstrates that its established policies, training, internal controls, and review systems provide assurances that unallowable costs subject to penalties are precluded from being included in the submission.
- The unallowable costs were inadvertently included in the submission.

Costs of Postretirement Benefit (PRB) Plans

Definition and Governing Rules

- ◆ Primarily Retiree Health and Life Insurance
 - Includes vision and dental
 - SFAS 106 definition
- ◆ GAAP Accounting – SFAS 106
- ◆ Statutory Accounting – SSAP 14
- ◆ Government Contract Cost Accounting
 - FAR 31.205-6(o) Postretirement benefits other than pensions (PRB)
 - FAR 31.205-19 Insurance and indemnification
 - CAS 416-50 Accounting for Insurance Costs

3 Government Contract Accounting Methods

1. Pay-as-you-go (cash accounting)

- $\text{Cost} = \text{Benefit Paid} + \text{Admin Expense}$
- Mismatch -- Current cost based on benefits earned in prior periods

2. Terminal Funding

- Funded upon retirement
 - ▶ Lump Sum Payment
 - ▶ Single Premium
- Must be amortized over 15 years

3 Government Contract Accounting Methods (cont'd)

3. Accrual Accounting

- SFAS 106 methodology except different values, starting with basic SFAS 106 Valuation Results
 - ▶ Accumulated Postretirement Benefit Obligation
 - ▶ Service Cost
 - ▶ Plan Assets
 - ▶ Assumptions
- No immediate recognition - Spread over future years of service
 - ▶ Transition obligation
 - ▶ Past service cost
 - ▶ Curtailments, settlements, & non-recurring Special Benefits

3 Government Contract Accounting Methods (cont'd)

3. Accrual Accounting (cont'd)

- PRB Cost is assigned to current period only
 - ▶ No Accrued / Prepaid PRB Cost, instead --
 - Unfunded PRB Costs
 - Prepayment Credits
 - ▶ Expected return on plan assets adjusted for delayed or premature funding
- Must be funded !!
 - ▶ VEBA (Voluntary Employee Benefit Association) Trust
 - ▶ 401(h) account within ERISA pension plan
 - ▶ Other “exclusive benefit” grantor trust
 - ▶ No “rabbi” trusts
 - ▶ Allowable interest based on quarterly funding
 - ▶ Interest on delayed funding is unallowable

Questions and Answers